Interest Rate Risk Management Weekly Update

February 2, 2015

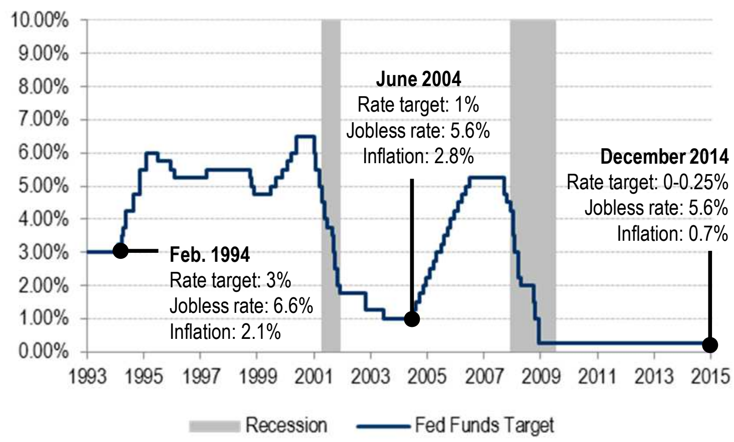
Current Rate Environment

Short Term Rates	Friday	Prior Week	Change
1-Month LIBOR	0.17%	0.17%	0.00%
3-Month LIBOR	0.25%	0.26%	(0.01%)
Fed Funds	0.25%	0.25%	0.00%
Fed Discount	0.75%	0.75%	0.00%
Prime	3.25%	3.25%	0.00%
US Treasury Yields			
2-year Treasury	0.45%	0.49%	(0.04%)
5-year Treasury	1.15%	1.31%	(0.16%)
10-year Treasury	1.64%	1.80%	(0.16%)
Swaps vs. 3M LIBOR			
2-year	0.74%	0.80%	(0.06%)
5-year	1.38%	1.52%	(0.14%)
10-year	1.84%	1.99%	(0.15%)

Fed Speak & Economic News:

- The FOMC concluded its January meeting on Wednesday, issuing a statement that was both dovish and hawkish. Comments on the domestic economy were upbeat, calling labor market activity "solid" for the first time since October 2007 and citing benefits of increased purchasing power to consumers due to lower energy costs. On the flipside, the committee dropped the phrase "considerable time" but reiterated they will be "patient" in deciding when to hike the benchmark fed funds rate. The inclusion of the word was interpreted that the Fed will not hike rates until June at the earliest. Also noted as a concern was the lack of inflationary pressure, and, for the first time in over a year, weakness in international markets. The bond market appeared to latch on the dovish tone, driving treasury yields lower across the curve.
- Initial U.S. fourth quarter GDP printed lower than consensus at 2.6 percent vs. expectations of 3.0 percent, contributing to a rally in treasuries. Full-year 2014 initial GDP estimates now stand at a sturdy 2.4 percent. As economic fundamentals advance and consumer confidence reaches its highest level since the recession began, falling treasury yields appear to be inconsistent with the level of strength in the U.S. economy. U.S. Treasury yields, however, are relatively high when compared to bonds of other advanced economies, resulting in consistent capital inflows from foreign investors. Added pressure from regulators to hold a greater amount of high quality assets has also increased banks' demand for the notes.
- Following the announcement of the ECB's quantitative easing program, sovereign debt yields fell across the globe last week, with the German 10yr at an all-time low of 0.30 percent. Barring global catastrophe, such low yields are perplexing. One explanation for Europe's bond rally is that investors continue to buy up bonds with a near insatiable appetite, knowing full well that the ECB will eventually need to purchase bonds from private investors. In the U.S., the Fed's Treasury purchases never exceeded net issuance. Things are different in Europe, however, where purchases will eventually exceed annual net issuances and private investors will gladly sell their high-priced government bonds to the voracious central bank. These displaced investors will seek higher yields in other developed countries, sustaining the influx of capital to the U.S.

Rate Lift-off



While the Federal Reserve is impressed by strong economic growth, it remains slow in announcing an interest rate hike. The gaining strength of the dollar, global weakness that threatens the U.S. recovery and lower inflation readings are all considerations. However, the labor market, one of the most important metrics guiding Fed Policy and a central tenet in its dual mandate, appears to support hikes when compared to past cycles. Friday's labor report will be closely scrutinized by market participants for insight on the Fed's data-dependent decision making process.

Sources: Bloomberg; Inflation measured as YoY U.S. Personal Consumption Expenditures Chain Type Price Index

The Week Ahead

- The economic calendar is heavy this week, including purchasing manager surveys from around the world, global CPI estimates by the OECD, and the all important US Jobs Report released Friday.
- St Louis Federal Reserve President James Bullard will deliver a speech Wednesday at the Annual Delaware Economic Forecast event. He will be the first FOMC member to speak following the January 28 meeting that left investors concerned about a later rate hike.

Date	Indicator	For	Forecast	Last
2-Feb	Personal Spending	Dec	-0.20%	0.40%
2-Feb	Markit US Manufacturing PMI	Jan F	53.7	53.7
3-Feb	Factory Orders	Dec	-2.20%	-0.70%
6-Feb	Change in Nonfarm Payrolls	Dec	235K	252K
6-Feb	Unemployment Rate	Dec	5.60%	5.60%

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